

Message Text

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11

ACTION NEA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 /092 W
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R 130549Z JUL 75

FM AMEMBASSY MUSCAT
TO SECSTATE WASHDC 1296
INFO AMEMBASSY BEIRUT
AMEMBASSY ABU DHAIB
AMEMBASSY KUWAIT
AMEMBASSY MANAMA

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NOFORN

E.O. 11652: N/A

TAGS: ENRG, MU

SUBJECT: NEW ENERGY DEVELOPMENTS IN OMAN

1. DEPUTY DIRECTOR OF OMAN CENTRAL BANK YUSUF NIMATALLAH HAS INFORMED US THAT THE OMANGOV ON VERGE OF DECISION TO PROCEED WITH THE CONSTRUCTION OF A SMALL PETROLEUM REFINERY. CONSTRUCTION SHOULD START NEXT YEAR, AND THE REFINERY IS EXPECTED TO BE ON STREAM BY 1978. NIMATALLAH ESTIMATED CONSTRUCTION COSTS TO BE BETWEEN \$40 AND \$60 MILLION.

2. NIMATALLAH BELIEVES REFINERY IS TOO SMALL TO OPERATE AT A PROFIT AND WOULD PROBABLY REQUIRE HEAVY SUBSIDIES FOR AT LEAST TWO YEARS. ITS MAIN PURPOSE IS A FORM OF INSURANCE. BY BUILDING A SMALL REFINERY, OMANGOV ENSURES THAT IT WOULD NOT BE TOTALLY VULNERABLE IN THE UNLIKELY EVENT OF A CUTOFF OF REFINED PRODUCTS FROM BAHRAIN, IRAN, KUWAIT, OR SAUDI ARABIA.
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THE OMANIS HAVE NO PLANS TO BUILD A LARGE REFINERY HERE.

3. ACCORDING TO NIMATALLAH, THE OMANGOV HAS ABANDONED AS UNREALISTIC ITS PREVIOUS EXPECTATIONS FOR EXPORT OF LNG. THE PRICE OF LNG HAS RISEN SO STEEPLY THAT IT HAS LOST ITS COMPETITIVE EDGE AGAINST OTHER FORMS OF ENERGY IN EUROPE AND JAPAN. TESORO AND GAZOCEAN PROPOSALS TO EXPORT LPG AND LNG SEEM TO HAVE FALLEN THROUGH PERMANENTLY, AND THE OMANGOV IS NOT ENTERTAINING SERIOUSLY NEW LNG PROPOSALS IT HAS RECEIVED FROM SMALLER AND LESS EXPERIENCED FIRMS.

4. PD(O) MANAGING DIRECTOR RUDI JACKLI HAS INFORMED US THAT OMAN'S NATURAL GAS RESERVES ARE TOO SMALL TO PERMIT PROFIT-ABLE EXPORT EVEN IF LNG WAS MORE PRICE-COMPETITIVE. A DAILY FLOW OF 500 MILLION CUBIC FEET OVER A 15-YEAR PERIOD WOULD BE NEEDED IN ORDER TO MAKE THE COSTLY INITIAL INVESTMENT IN AN LNG PLANT WORTHWHILE, AND OMAN'S POTENTIAL NATURAL GAS PRODUCTION IS ESTIMATED AT SLIGHTLY LESS THAN HALF THAT RATE. JACKLI OPINED THAT OMAN'S NATURAL GAS WOULD BE USED LOCALLY TO FUEL THE DESALINIZATION/POWER PLANT COMPLEX; THEREBY REPLACING ADDITIONAL CRUDE WHICH THEN COULD BE EXPORTED. ZWEIFEL

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